

## Analysts : Kinsteel's Prospects Favourable



Analysts are bullish on Kinsteel Bhd's prospects due to favourable external and domestic factors, coupled with the green light given for listing its 51%-owned Perwaja Steel Sdn Bhd on Bursa Malaysia. The fully-integrated steel

producer is one of the largest in Malaysia with a total production capacity of 4.8 million tonnes annually. It has 12 plants in the country and a strong distribution network of more than 300 dealers locally and regionally. Going forward, Kinsteel intends to take advantage of the tight steel supply situation faced by the region by targeting full utilisation of the available capacity of Perwaja's Gurun plant, which achieved 63% utilisation rate last year. "The Gurun plant is capable of producing higher-margin products that command strong demand from local and regional companies. It is continuously putting efforts into producing products that meet the specifications of the building industry," MIMB Investment Bank Bhd said in its latest note. The company, known to be the sole producer and distributor in South-East Asia of direct reduction iron, beamblanks, H-beams and I-beams, is about to roll out new products, such as high-grade wire rod, rail track, galvanized wire, sheet pile and imperial sized I and H beams this year.

"Niche products, such as galvanized wire and rail track, fetch significantly higher margins of 30% compared with its current earnings before interest and tax margin of about 15%, improving its future earnings prospects," an analyst with a bank-backed brokerage noted. Kinsteel also plans to invest in a RM400mil

mini-blast furnace that produces hot metal in line with its intention to move up the value chain by producing more niche steel products. The furnace will have an annual capacity of 600,000 tonnes and is expected to commence operations by mid-

2009. "Besides ramping up its production for high-grade niche steel products, the mini-blast furnace would result in energy cost savings of approximately 30% or RM50mil," the analyst added, Kinsteel received the Securities Commission's approval to list Perwaja.

"With this approval, Perwaja will be able to access the capital markets to raise funds for future expansion opportunities; as well as unlock some value for both Kinsteel and Perwaja shareholders," chairman Tan Sri Abu Sahid Mohamed said in a statement.

In an earlier report, Kinsteel said there would be no effective dilution on its shareholding in Perwaja after the initial public offer (IPO) but would remain at 51%, comprising ordinary shares and irredeemable convertible unsecured loan stock. Analysts are optimistic on this latest development, as the listing exercise will reduce Kinsteel's net debt or gearing substantially, besides unlocking its investment value. About RM230mil will be raised from the IPO where Rm130mil will be utilised for the purchase and construction of the furnace, while the balance will be used for general capital expenditure. The remaining amount of RM270mil needed for the furnace will be funded internally or via bank borrowings. "The listing would also result in a separation of the upstream products, enabling Kinsteel to focus on its core business of mid and downstream activities, while retaining management and control over the facilities," an analyst said. "It will be one of the most interesting IPOs during the period as the infrastructure development surge associated with the ramp-up of Ninth Malaysia Plan projects at its fastest pace would get under way around that period," another analyst observed.

## NDRC Urges More Governmental Guidance for Iron Ore Development



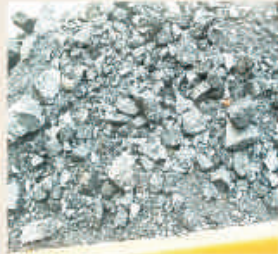
Leading Chinese steel mills like Baosteel, Anshan, Wuhan and Shougang have achieved a consensus that central government should step up macro guidance in iron ore mines development both at home and abroad, at the recent conference convened by National Development & Reform Committee (NDRC), reported by China Securities News.

Domestic ore mine extraction has been disordered in recent years amid skyrocketing iron ore price for lack of sufficient input. By contrary, those high-grade and easy-to-exploit iron ore reserves have been controlled by the world's leading ore miners. That's why Chinese companies have to pay costly price for getting access to these reserves.

The participants of the meeting agree that it's essential to embark on strategic research on iron ore reserve in order to nail down the problems and get a clear understanding of current iron ore reserve in China. That would lay groundwork for giving advise to government policy guiding the iron ore exploitation in the future.



## Coal Enterprises Calls for Export Quotas Relaxation



Export price for China-origin coal will keep increasing against a backdrop of continuous price hikes in international market, the two largest domestic coal producers, Shenhua Group and China National Coal Group, says separately at Coaltrans China 2008. According to Jing Tianliang,

general manager of China National Coal Group, China now eyes robust demand and tight supply of coal and discourages coal exports. Export prices offered by China were all higher than those quoted by Australia. Chinese coal enterprises have every reason to seek a coal price hike, which would be a bigger one than Australian suppliers. Japan has agreed with Australian coal suppliers on a 125% price hike for thermal coal on Apr 9.

Price for coal exported to Japan can rise some 10% based on current level, says Wang Jinli, vice president of China Shenhua Energy Company Limited. Japan is the largest buyer of Chinese

coal, who purchased 29% of China's total exports last year. However, "The biggest problem lies in export quota rather than export price." Wang points out. China has restricted exports of resource-intensive products during recent years and has introduced coal export quota. The first batch of coal export quota reaches 31.8 million tons, with 13.1 million tons or 41% going to Shenhua Group and China National Coal Group each. Government plan shows export quota drops dramatically to 53 million tons this year, slumping by 17 and 27 million tons respectively compared with 70 and 80 million tons in 2007 and 2006.

This worries coal exporters. Wang hopes the government removes too strict restrictions on coal exports, in view of overseas market shares gained by years of hard efforts. "Export volume can maintain the level in last year if policy does not change significantly," Jing explains. Short thermal coal supply after snowstorms early this year has been relieved. The second batch, or even the third batch of export quota will come out providing demand emerges in overseas markets.

## CISA: 2007's Steel Export Downtrend to Continue this Year

Mr Luo Bingsheng, executive vice president of China Iron and Steel Association unveiled at the 08 International Steel Forum and China Steel Trade Fair hosted by Mysteel that last year's



downtrend in steel and billet exports will continue to this year, and if the total amount of export rebounds, government will take more severe control measures. Luo predicted that China's steel export will be 48 million tons, billet 15 million tons in 2008, converting into crude steel is 52.5 million tons, decrease by 20 million tons over 2007's export and down by 27%. For imports, China's steel imports could be 16 million tons, billet about 220 thousand tons that almost equals to 2007's.

Luo said, the government's restrictive measure about steel export will take further effects. Judging from this year's operation, there would be two situations: One is that home steel prices plunge

substantially while international steel prices keep high, the other is that international prices further rise up, whereas domestic market goes stable relatively. The price gap will be larger, which will stimulate Chinese steel exports. However, Luo revealed that if the total export amount rebounds, the government will take more restrictive policies. It depends on steel export in 2008 will not continuously increase. Even if there is export rebound, it would just a short-run period. Export decreasing is inevitable in 2008.

## Angang to Raise Capacity to 50m T By 2010

Angang Group aims to raise up its steel capacity to 50m tons by 2010, Zhang Wanqin, Exporting Director of the company's international trading unit, told Reuters at 2008 Mysteel International Steel Forum held in Shanghai.



Angang has to make more efforts to obtain this goal in the years ahead since Bengang would attribute merely 10m tons of capacity to the group after the merger completes, but he declined to reveal more details about the company's future plans. Last year, Angang's crude steel and finished steel output both have surpassed 16m tons, and its president Zhang Xiaogang hopes the crude steel capacity would reach some 19m tons this year.



## Positive Beginning of Year 2008-09 for SIAM



After a year of negative growth, production and sales in April 2008 picked up for all the segments.

### Domestic Sales

The growth of the Passenger Vehicles segment during April 2008 was 21.21 percent. Passenger Cars grew by 17.15 percent, Utility Vehicles by 31.67 percent and Multi Purpose Vehicles by 48.25 percent in this period. The Commercial Vehicles segment grew at 7.62 percent. Medium & Heavy Commercial Vehicles grew at 5.28 percent and Light Commercial Vehicles recorded a growth of 10.75 percent. Three Wheelers sales grew by 5.37 percent. While Passenger Carriers grew at 15.29 percent during April 2008, Goods Carriers declined by 9.51 percent. Two Wheelers grew by 8.00 percent during this period, with Motorcycles and Scooters

## RINL Signed Agreement with Consortium of MBI-UK



RINL signed an agreement with the Consortium of MBI-Claton Walkers Gas Holder Division of UK and MICCO, Kolkata for Gas recovery System of Steel Melt Shop (SMS-2) on Total Turnkey Concept including Civil and Electrical Works in the expansion stage. The cost of the System is Rs.62 Crores involving a foreign component of Rs.8 crores to be completed in a period of 22 months from the date of Order. The Gas Holder is of 80,000 cum Capacity with latest technology of Single seal. The agreement is signed by Sri AK Benerjee, ED (Projects) on behalf of RINL and Mr. AC Brown of MBI, UK and Mr. R Benjamin of MICCO, Kolkata.

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growing by 8.31 percent and 11.93 percent respectively. However, Mopeds and Electric two wheelers segments declined by 1.20 percent and 68.31 percent respectively.

### Exports

Automobile Exports registered a growth of 31.91 percent during April 2008, but not all segments registered positive growth. While Passenger Vehicles and Two wheelers segment grew at 54.20 and 48.22 percent respectively, exports of Three Wheelers and Commercial vehicles segments declined by 38.06 percent and 34.13 percent respectively.

## Wuhan Steel Releases June 2008 Prices



Wuhan Steel has recently published its latest prices for June 2008 productions, based on May 2008 prices

### HR Sheet

- Up by CNY 100 per tonne for quality carbon steel
- Up by CNY 300 per tonne for common carbon and low alloy steel with thickness of more than 25mm
- Up by CNY 600 per tonne for others

### Wire Rod

- Up by CNY 400 per tonne for cold heading steel
- Up by CNY 300 per tonne for others

### HR

- Up by CNY 50 per tonne excluding shipbuilding plate
- Up by another CNY 100 per tonne for coils and plates with thickness of more than 12mm

### CR

- Up by CNY 100 per tonne

### Tinplate

- Up by CNY 200 per tonne

### Silicon Steel

- Up by CNY 1000 per tonne for oil grain oriented silicon steel

### GI

- Up by CNY 50 per tonne for GI without spangle on the surface

### Other

- Unchanged

Prices listed above are exclusive of 17% VAT, effective as of May 5th 2008.